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December 3, 2001

Dr. Charles A. LeMaistre
Chairman, Enron Compensation Committee
Enron Corp.
7 Bristol Green
San Antonio, TX 78209

Dear Dr. LeMaistre:

As requested by Enron's Compensation Committee, Tower Perrin has prepared this letter providing our opinion regarding the competitiveness of the executive compensation programs at Enron Corp. Our comments about pay competitiveness relates to organizations that are going concerns, without any adjustments for a company's financial condition. The remainder of this letter provides a discussion of Enron's pay philosophy, the methodology used to assess pay competitiveness, and the competitiveness of specific executive compensation programs.

Pay Philosophy

Enron's executive pay philosophy has been to target approximately the market median (50th percentile) for base salaries, the 75th percentile for total cash (i.e., base plus bonus), and the 75th percentile for long-term incentives. However, actual bonus payments and long-term incentive awards are to vary based on performance.

Market Pay Assessment Methodology

Enron has for years collected marketplace compensation data for as many of its jobs as possible. Towers Perrin's involvement in this process has varied over time, ranging from actually developing market compensation rates for hundreds of jobs to opining on the overall methodology used by Enron's executive compensation staff. Towers Perrin has also reviewed the individual market pay rate and recommendations developed by Enron Executive Compensation staff for the Management Committee. However, the Compensation Committee has consistently relied on Towers Perrin for market pay data for the CEO and at least two other senior officer positions each year.

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In Towers Perrin's experience, the appropriate market data to be used depends on the size of the company (most often measured by revenues, as shown in most reputable executive pay surveys) and industry affiliation (for certain commercial jobs). In our opinion, the data sources relied upon by Enron for developing executive and commercial market compensation rates are widely accepted and utilized surveys, such as those produced by Towers Perrin, Hewitt, and McLagan Partners.

As alluded to above, company size, as measured by revenues, is an important factor in determining market pay competitiveness. Traditionally, Enron, like most of its energy industry competitors, considered the Company's full revenues in assessing its size for market pay determination purposes. However, with increased trading volumes and volatility, the Company's 2001 actual and 2002 expected revenues escalated dramatically. For example, 2000 actual revenues were about \$100 billion and 2001 expected revenues (until the turmoil experienced in the last quarter) were estimated at about \$200 billion. Because these revenue growth rates were so unprecedented and because the Company's size had not increased as dramatically using other measures (such as assets, employees), the Compensation Committee agreed to moderate the revenue growth impact on compensation decision-making for 2000 and 2001. For 2000, budgeted revenues of \$56 billion (versus actual revenues of about \$100 billion) were used to determine company size. For 2001, the recommended methodology was to use revenues equal to the revenues of companies with market capitalization equal to roughly 50% to 200% of Enron's market cap for a trailing 6 month period. This methodology produced net adjusted revenue of \$45 billion for Enron to use as of August of this year.

Please note that most of Enron's energy industry peer companies still use total gross revenues to determine their size for executive pay purposes. Consequently, the methodology used by Enron in 2000 and 2001 was conservative.

Competitiveness of Enron Pay Programs

While Towers Perrin and Enron's executive compensation staff have worked together in assessing the competitiveness of executive pay at Enron over time, a comprehensive analysis examining the relationship between pay and performance was conducted in April 2001. This "stress test" analysis (which was requested by the Compensation Committee) included:

- Interviews with senior management and members of the Board on the perceived effectiveness of Enron's executive pay programs;

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- A competitive compensation analysis for 60 key executive positions;
- A review of the in-the-money value of equity-based pay;
- An analysis of expected total direct pay at various share prices; and
- An assessment of potential stock overhang under various projected share price levels.

As part of this analysis, Enron's performance was compared to selected investment banking and energy industry peer companies for 1998 to 2000. A copy of this analysis is shown in Attachment A. As shown, Enron's performance on ROE and TSR was typically above the median and was often around the 75th percentile compared to its energy industry peers. On a market cap basis, Enron was larger than all of the energy and investment banking companies analyzed, except Morgan Stanley Dean Witter.

The competitive pay assessment showed that Enron's base salaries were 91% of the market median (using the \$56 billion sales figure regression analysis previously cited) and that total pay levels for 2000 (including base, bonus, and the expected value of long-term incentives) was 113% of 75th percentile. Towers Perrin believes an organization's pay levels are competitive if they fall within 90% to 110% of a market reference point. Therefore, we concluded that Enron's total direct pay levels for the executives in the study were slightly above the 75th percentile, based on the Compensation Committee's judgement regarding company performance.

Annual Incentive Pay Structure

Until the year 2000, Enron funded bonus pools for each business unit and corporate staff based on market levels of incentive funding by business line (e.g., trading versus asset business). In 2000, senior management expressed concern that this bonus funding structure discouraged key commercial employees from leaving profitable units to take critical positions in less profitable units (since funding was based on a percentage of net income for each unit).

To address this concern, Towers Perrin recommended (and the Compensation Committee adopted) a new bonus funding scheme under which bonuses throughout the Company would be funded at the equivalent of 16% of corporate earnings before interest and taxes (EBIT). (This recommendation was revised at management's request to be expressed as about 24.5% of recurring net income so that taxes and

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interest expenses would impact the calculation, assuming a 35% tax rate). Individual employee bonus allocations from the pool were then to be made using discretion, but considering the value of the individual's position using market data and individual performance.

In Towers Perrin's experience, this annual incentive plan design is consistent with market 75th percentile practices for energy trading and marketing entities.

Long-Term Incentive Plan Design

Enron's long-term incentive plan consists of two parts: stock options and performance accelerated restricted stock (TARSAP). Under this program, 50% of the expected value of long-term incentives is delivered using each vehicle.

Enron is consistent with market practice in using stock options. According to Towers Perrin's 2001 Long-Term Incentive Plan Survey, 89% of companies use stock options.

The Company's use of restricted stock is somewhat less common. Towers Perrin's survey data show that 20% of companies use restricted stock. Prior to 1999, the Company used a combination of stock options and a long-term performance plan. However, the Company began experiencing retention problems in 1998/99 that led to the need to provide retention incentives. The restricted stock element of this program was intended to meet this objective. However, Enron's restricted stock plan provides for awards to cliff vest 4 years after the date of grant, with vesting to be accelerated if certain performance levels are achieved relative to the S&P 500 index. This plan feature increases the performance sensitivity of the restricted stock element of the plan while at the same time aiding in employee retention.

Other Pay Actions

This fall, Enron experienced a sudden and unexpected decline in its share price and investor confidence. Because the Company has relied significantly on stock-based pay and cash incentive pay to attract and retain employees, this turn of fortunes resulted in significant concerns about how to hold the Company together during this time of turbulence.

Enron then entered into a merger agreement with Dynegy. Because compensation issues during an expected merger are unique, Towers Perrin prepared the November 14, 2001 letter (Attachment B) to help guide Enron's Compensation Committee in its decision-making. This letter recommended that the Committee

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provide fully competitive 2001 bonuses for key commercial employees (based on their performance and market values), since their talent is significantly in demand in the market and since Enron's ultimate value to shareholders would depend on keeping key talent in this area. Based on these facts and market pressures, the Compensation Committee established a 2001 annual bonus pool of \$50 million to be paid to up to 100 key commercial employees in Enron Americas. This funding equals about 2.5% of Enron Americas' (its most important commercial unit) EBIT, which is dramatically less than market median funding of 15% of EBIT for energy trading units.

Following Dynegy's withdrawal from the merger agreement, Enron then faced the issue of retention of critical non-commercial staff. Enron's Compensation Committee chose to establish a 2001 bonus pool for this group of about \$54 million. This plan excluded any payments to 16(b) officers and contains a requirement that any recipient who voluntarily terminates employment prior to 90 days after receipt of payment must pay back 125% of the award.

This bonus plan was approved for 528 individuals (out of an employee population of 20,000) who are considered critical to the Company's ability to function. In essence, the plan pays awards equal to about 90% of prior year bonuses (on average) in order to retain key staff not covered by the Enron Americas plan cited above. As shown in Attachment B, 45% of surveyed companies report using stay bonuses. The Enron bonus payments to these critical employees were structured to be a form of stay bonus, since the payouts contain a claw-back feature and a premium repayment to the Company of 25% in the event of voluntary termination.

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I hope this letter meets Enron's needs. Please call me with any questions.

Sincerely,



CEE:mhm

cc: Ms. Mary Joyce
Mr. John Duncan

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Table I

**Enron Corp.
Financial Analysis
Selected Financial Measures for Enron and Selected Peer Companies**

Company	Calendar Year End 2000 Market Capitalization (\$Millions)	Total Shareholder Return (as of the end of 2000)			Return on Equity			Current PE Ratio* (Ratio)	Share Price Used to Calculate PE Ratio	Earnings Per Share
		1-Year [%]	2-Year [%]	5-Year [%]	2000 [%]	1999 [%]	1998 [%]			
Investment Banking Peers										
MORGAN STANLEY DEAN WITTER	\$37,761	12%	40%	47%	29%	29%	25%	13	\$57.40	\$4.42
MERRILL LYNCH & CO	\$55,024	65%	26%	42%	21%	21%	13%	16	\$60.55	\$4.04
GOLDMAN SACHS GROUP INC	\$51,702	14%	N/A	N/A	19%	21%	38%	16	\$91.78	\$5.74
LEHMAN BROTHERS HOLDINGS INC	\$15,966	60%	39%	48%	24%	19%	14%	11	\$68.23	\$6.02
BEAR STEARNS COMPANIES INC	\$5,524	20%	7%	27%	15%	15%	18%	11	\$48.49	\$4.41
25th Percentile:	\$15,966	14%	20%	28%	19%	19%	14%	11	\$37.40	\$4.41
Median:	\$31,762	20%	32%	44%	21%	21%	18%	13	\$60.55	\$4.42
75th Percentile:	\$55,024	60%	39%	48%	24%	21%	25%	15	\$68.23	\$5.74
Energy Industry Peers										
DUKE ENERGY CORP	\$31,457	76%	20%	17%	17%	9%	15%	18	\$42.51	\$2.35
DYNEGY INC	\$17,473	220%	65%	55%	13%	12%	10%	36	\$53.16	\$1.48
EL PASO CORP	\$16,736	89%	32%	41%	16%	-8%	11%	28	\$67.77	\$2.42
RELANT ENERGY INC	\$12,762	99%	24%	19%	14%	31%	-3%	31	\$47.00	\$1.52
UTILICORP UNITED INC	\$2,890	69%	12%	16%	11%	11%	9%	15	\$33.89	\$2.26
25th Percentile:	\$12,762	76%	20%	17%	13%	9%	9%	18	\$42.51	\$1.92
Median:	\$16,736	89%	24%	19%	14%	11%	10%	28	\$47.00	\$2.26
75th Percentile:	\$17,473	99%	32%	41%	16%	12%	11%	31	\$53.16	\$2.35
ENRON CORP **	\$65,244	88%	62%	24%	12%	12%	11%	53	\$58.44	\$1.12

* P/E ratio taken from April 17, 2001 Wall Street Journal and is calculated by dividing the closing market price by the Company's diluted per-share earnings, as available, for the most recent four quarters. Charges and other adjustments usually are excluded when they qualify as extraordinary items under generally accepted accounting rules.

** Data presented for Enron developed by Enron staff.

Source: Standard & Poor's Compustat Database